

Integrating Markets
and Public Policy (IMAPP):
Overview of New England's
2016-17 IMAPP Process

presented to
PJM Carbon Pricing Senior Task Force
October 24, 2019



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The New England Power Pool

- NEPOOL was formed in 1971 to coordinate reliability and implement regional economic dispatch.
- NEPOOL's Mission is "to create and sustain open, non-discriminatory, competitive, unbundled markets for energy, capacity and ancillary services that are balanced between buyers and sellers."

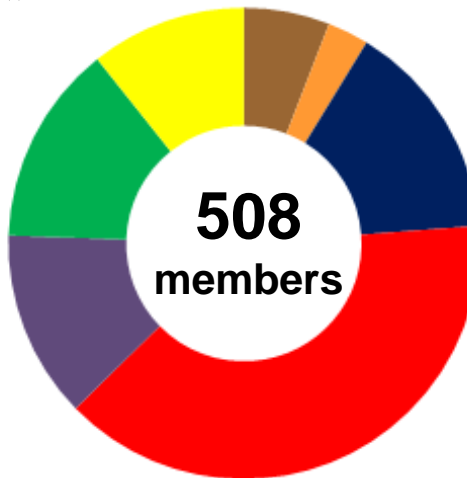


NEW ENGLAND POWER POOL

End Users 48

AR Providers 68

Publicly Owned
Entities 61



Transmission 33

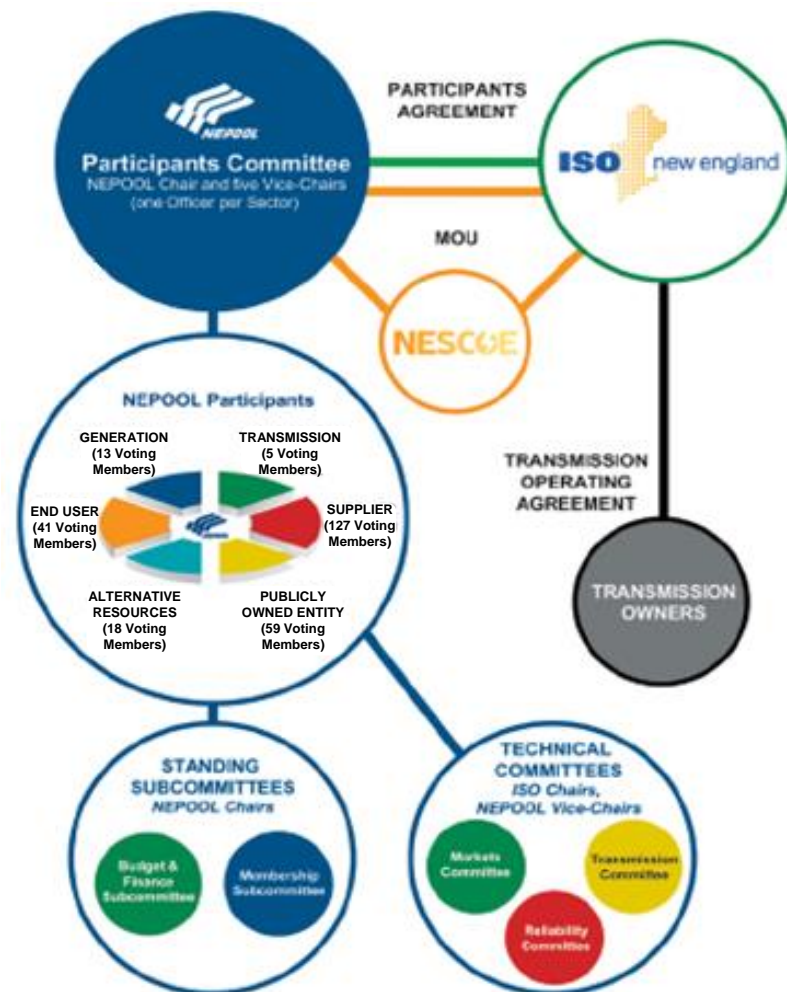
Others 21

Generation 72

Suppliers 205

NEPOOL Stakeholder Process

- NEPOOL is the stakeholder voting organization to advise on all matters relating to the competitive wholesale market rules and transmission tariff design.
- Designed to maximize consensus among stakeholders.
- Where consensus not possible, unresolved issues more clearly articulated, defined and limited.

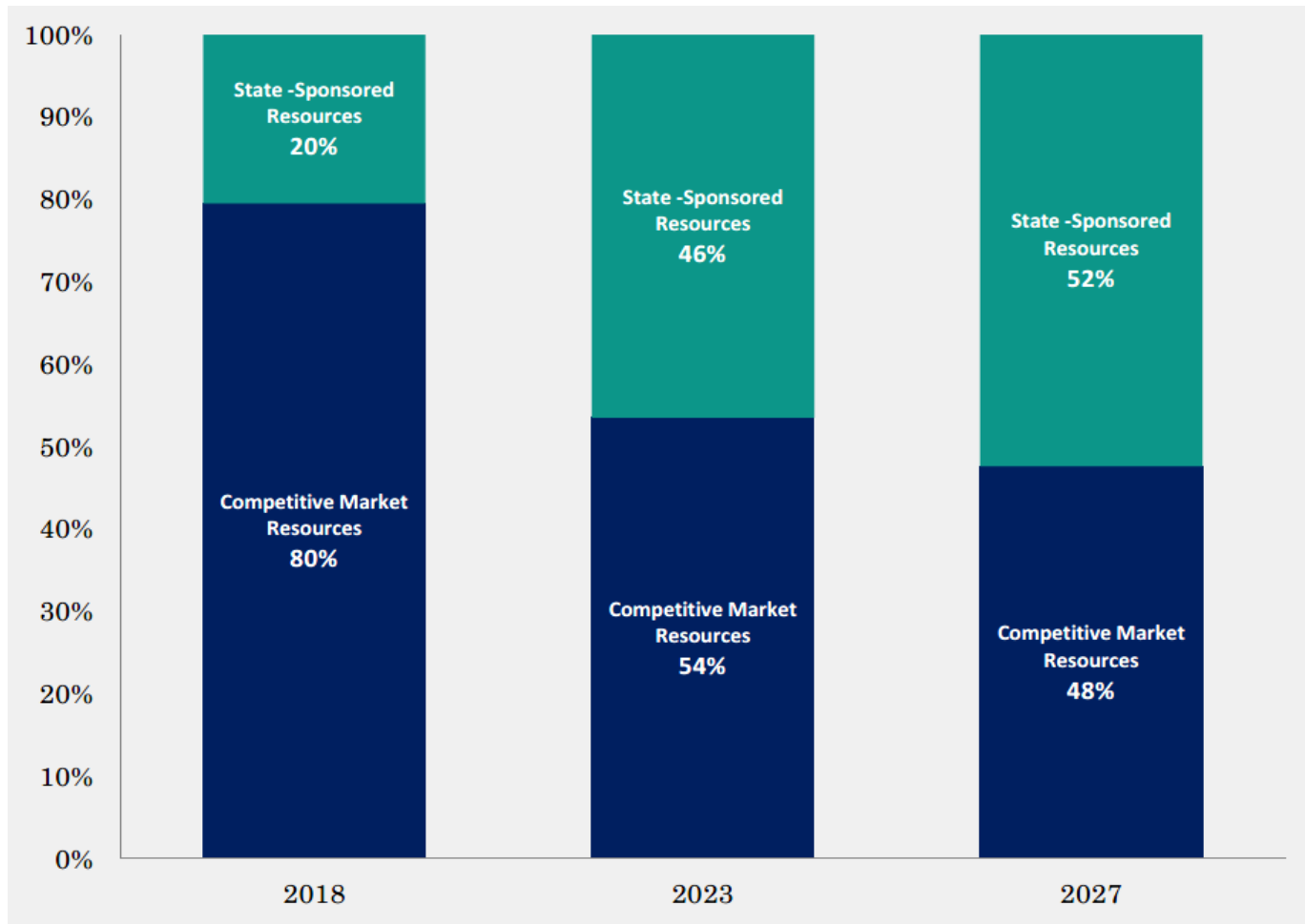


Evolving State Public Policy Objectives

New England Activity

- New England States have increasingly sought to advance their individual environmental and policy goals through actions outside of the competitive wholesale markets.
- Each of the six New England States have mandatory renewable portfolio standards (RPS), all of which have required statutory goals that increase year over year.
- To further their public policy objectives, the States increasingly are turning to state-sponsored long-term power contracts for certain generation.

New England: Major Transition Underway



Source:
Compass
Lexicon (Joe
Cavicchi,
prepared for
NEPGA)

Diverging Policies

- Competitive markets not delivering legislatively desired outcomes.
- Market power protection mechanisms can prevent New England states/customers from realizing full value of investment.
- Potential for new stranded costs.
- Market interventions can:
 - ◆ Suppress clearing prices.
 - ◆ Undermine competitive market dynamics.
 - ◆ Reduce liquidity for suppliers leading to higher prices.
- Could create need for reliability-based contracts.



Genesis of IMAPP

- Growing recognition of the needs of New England states to achieve mandated public policy objectives.
- Growing concern that states' actions to achieve those objectives were becoming large enough to interfere with competitive wholesale markets.
- Acknowledgement that current markets were not designed to achieve the objectives sought by state legislatures for New England's generating fleet.



New England's IMAPP Initiative

- **IMAPP (Integrating Markets and Public Policy):**

A NEPOOL initiative to consider changes to the existing wholesale market design that will not only ensure reliability of the electric system through competitive wholesale markets, but will do so while advancing the public policy goals of the New England states.



IMAPP Challenges

- Defining “Public Policy”
 - ◆ Achieve state’s renewable portfolio standards?
 - ◆ Achieve state’s carbon reduction goals?
 - ◆ Support energy efficiency programs?
 - ◆ Support long-term contracting by states?
 - ◆ Support existing nuclear fleet?
 - ◆ Support behind-the-meter renewables?
 - ◆ Other public policy objectives?
- Defining targeted procurement
 - ◆ Each state sets its own policies.
 - ◆ Each state sets its own target.



IMAPP Challenges (Cont.)

- Defining who pays.
 - ◆ Public policy attributes are different among the New England states.
 - ◆ Each state has different RPS laws and a different targeted procurement of its favored attributes.
 - ◆ Impacts of one state's programs affect other states.
- In theory, New England's markets could provide the efficiency benefits of a centralized regional market while allocating costs of each policy attribute among only those states seeking that attribute.



Various IMAPP Conceptual Proposals

Carbon Pricing in the Energy Market

- Carbon adder would be included in energy offer and energy clearing price.
- Adder would be collected back from carbon emitters (revenue allocation from these collections TBD).

Carbon-Integrated Forward Capacity Market (FCM-C)

- New Zero Emission Credit (ZEC) market would be integrated with the Forward Capacity Market (FCM) and would incorporate a forward signal for renewable or clean energy into the FCM.

Forward Clean Energy Market (FCEM)

- Intended to support new resource investment and/or existing clean energy resources, FCEM would establish a new forward market for commitments to deliver clean energy.

FCM Adjustments

- **Two-Tiered Pricing Construct:** Forward Capacity Market would clear at one price for existing and new competitive resources and a lower price for state-supported resources offered into auction below competitive prices.
- **Paired Retirement Election Concept:** Intended to accommodate entry of state-supported resource by requiring such resource to be paired with early retirement of existing resource(s).

Carbon Pricing Concept: Issues & Challenges Raised

- Development and adjustment of carbon price and associated governance issues.
- Consumer cost risks (costs v. benefits analysis).
- Threshold legal & jurisdictional questions.
- Complex cost and rebate allocation issues.
- Interaction with New England states' existing carbon-related support mechanism, RGGI.

Recap of IMAPP Process



- IMAPP materials located at: <http://nepool.com/IMAPP.php>.
- Nine (9) IMAPP meetings in total; 17 various proposals.
- FERC technical conference held on May 1-2, 2017 concerning IMAPP-related issues in ISO-NE, NYISO and PJM.
- In April/May 2017, ISO-NE issued a conceptual proposal intended to **accommodate** state public policy objectives in the near term while addressing capacity market pricing concerns.
- Shifting attention from longer-term “**achieve**”-style proposals to the nearer-term, New England focused its efforts in remainder of 2017 on developing, considering and evaluating ISO-NE’s Competitive Auctions with Sponsored Policy Resources (CASPR) construct.

Questions?

